

Report
of the
Examination of
Professional Dental Plan, Inc.
Madison, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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December 20, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

PROFESSIONAL DENTAL PLAN, INC.
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Professional Dental Plan, Inc. (the LSHO or PDP) was conducted in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the LSHO's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Growth of the LSHO
- Financial Statements
- Accounts and Records
- Data Processing
- Underwriting

Emphasis was placed on the audit of those areas of the LSHO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the LSHO to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the LSHO's operations is contained in the examination work papers.

II. HISTORY AND PLAN OF OPERATION

The Professional Dental Plan, Inc., can be described as a nonprofit independent practice association (IPA) model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the IPA model, the LSHO provides care through contracts with otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

The LSHO was incorporated under ch. 613, Wis. Stat., on May 14, 1984, and commenced business August 17, 1984. The start-up costs of the LSHO were funded by contributions from each of the original participating dentists. These contributions totaled \$170,230 at year-end 2001.

The LSHO provides Dean Health Plan enrollees with covered dental services through contracts with 73 dentists. An enrollee designates one of the PDP dentists to provide the enrollee's dental care. The dentist agrees to provide covered dental benefits in exchange for the monthly capitation amount paid to the dentist by PDP for each assigned enrollee.

Since the prior examination, PDP continues to have one dental service agreement, which is with Dean Health Plan, Inc. (DeanCare). Prior to January 21, 1994, the company had dental service agreements with 187 groups. On this date all of PDP's policies, excluding DeanCare's, were assumed by American Dental Plan of Wisconsin, Inc. (ADP). It was noted that the dentists under contract with PDP are also under contract with ADP.

Dental services are rendered by contracting providers located in the Wisconsin counties of Columbia, Dane, Dodge, Grant, Iowa, Jefferson, Marquette, Richland, Rock, Sauk, Waukesha and Walworth. All providers enter into a Dentist Participation Agreement with PDP governing services provided to DeanCare enrollees.

The Dental Participation Agreements have an initial one-year term, on a calendar year basis. The contracts automatically renew for successive one-year terms unless written notice of nonrenewal is given by either party at least 180 days prior to the renewal date. PDP may terminate the agreement immediately if cause exists for the termination of the dentist.

The Dental Participation Agreements contain the following hold-harmless provision:

In consideration for Dental Covered Services to be provided by Dentist pursuant to this agreement, PDP shall pay Dentist the capitation fee stated in Exhibit B attached hereto. Dentist agrees to accept amounts paid by PDP as full payment for the Dental Covered Services required to be provided by Dentist to Members under this Agreement, provided that Dentist may charge or collect any co-payment or deductible permitted under the Dean Agreement as well as any charges for services which are not Dental Covered Services. In the event that PDP fails to pay for Dental Covered Services rendered to or for any Member by Dentist, such Member shall not be liable insolvent or otherwise fails to pay the Dental Covered Services as required under this paragraph, Dentist shall provide Dental Covered Services to each member for the duration of the period for which the Member's premium has been paid to DeanCare not to exceed 30 days.

The Dental Services Agreement between DeanCare and PDP was in effect during a portion of the period under examination, which ended December 31, 2000. The contract may be terminated at any time upon mutual consent of the parties and in the event that DeanCare should become insolvent or otherwise fails to pay the capitation fee required, PDP shall provide dental covered services to each member for the duration of the period for which the member's premium has been paid to DeanCare not to exceed thirty days. An extension amendment was not produced for the 2001 contract year due to the fact that both parties could not agree on the capitation fees. Dean is discontinuing the agreement with PDP and PDP will be dissolving in the spring of 2002.

The following services are provided by the plan:

1.	Diagnostic	Fully Covered
2.	Preventive	Fully Covered
3.	Limited Restorative	Fully Covered
4.	Adjunctive General	Fully Covered
5.	Limited Endodontic	Fully Covered
6.	Orthodontic	50% of the first \$3,000

Plan coverages are contingent on nonemergency services being rendered on the basis of dental necessity by the designated PDP dentist or on the referral of a designated dentist. Emergency dental care is available within the PDP service area from an enrollee's designated

dentist or an alternative PDP dentist. The delivery of emergency services outside the designated dentist's service area is covered by the dental plans subject to certain conditions and limitations.

PDP capitation rates received from DeanCare are based on premium amounts set forth in the agreement between DeanCare and the State of Wisconsin Employee Group Insurance Fund (Fund). Capitation rates paid to PDP are subject to change from year to year due to premium changes in the contract between DeanCare and the Fund. Capitation rates paid to the dental providers are developed by the board of directors, based on analysis of market factors. The rates are then reviewed by a financial consultant for reasonableness and are adjusted annually by the board of directors. Adjustments are made annually to capitation rates paid to dental providers due to the changes in capitation rates received under the DeanCare agreement.

The company monitors the performance of its providers through a peer review committee. The company has a Quality Assurance Program, which evaluates various aspects of the participating dentists' dental practice management and improves practice quality and documentation of treatment procedures. The board of directors conducts a monthly review of group utilization based on detailed encounter information submitted by all PDP providers to the company. This information is maintained in the LSHO's computer database.

The LSHO has a formal grievance procedure entailing the duties of the PDP dental director and the PDP grievance committee. A grievance may be with respect to quality, availability, or accountability of dental services; receipt of bill for services; referral problems; denial of services; confusion concerning plan coverages; or dissatisfaction with providers. All complaints are directed to the dental director who is selected and appointed to the position by the board of directors from among the PDP participant providers. The dental director follows up on complaints and attempts to mediate between the LSHO, subscriber, provider, and enrollee to resolve problems. Should the dental director fail to resolve the matter, an enrollee may take their grievance before the grievance committee, where they are to conduct an impartial hearing and act to resolve the grievance.

III. MANAGEMENT AND CONTROL

Board of Directors

The management of PDP is vested in the board of directors. The ByLaws call for five board members and a board-appointed dental director. Each director is appointed to a three-year term and may serve more than one term in office. The term of a director who is serving as president during the year that their term as director would otherwise end shall be extended one additional year. The dental director serves a term of three years.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
William Giswold, D.D.S. Madison, Wisconsin	Dentist	12/31/01
Foster Colby, D.D.S. Madison, Wisconsin	Dentist	12/31/01
Stephen Kellogg, D.D.S. Oregon, Wisconsin	Dentist	12/31/01
Eric TeDuits, D.D.S. Madison, Wisconsin	Dentist	12/31/01
Greg Killian, D.D.S. Middleton, Wisconsin	Dentist	12/31/01

Board members are paid \$300 for each board meeting attended; the president is paid \$550 for each board meeting attended.

Officers of the LSHO

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2001 Compensation
William Giswold, D.D.S. Madison, Wisconsin	President	\$550 per meeting
Foster Colby, D.D.S. Madison, Wisconsin	Secretary	\$300 per meeting
Greg Killian, D.D.S. Middleton, Wisconsin	Treasurer	\$300 per month
Tom Choate, D.D.S. Madison, Wisconsin	Dental Director	\$550 per month

The LSHO has no employees. Necessary staff is provided through an administrative agreement with Suby, Von Haden & Associates, S.C. (SVA). Under the agreement, effective December 31, 1996, SVA agrees to provide management information systems, financial systems, capitation administration, provider and subscriber services, utilization review, and office management services. SVA produces monthly financial, utilization, member profile, and billing reports, prepares and files requested documents with regulatory agencies, and complies the LSHO's annual financial statement filed with the Office of the Commissioner of Insurance. In return SVA receives 5.5% of the premiums billed by PDP as compensation for services rendered.

The company did not amend its agreement with SVA for 2001. SVA still followed the agreement and provided the necessary service for PDP for 2001 even though the agreement ended December 31, 2000.

Financial Requirements

The financial requirements for an LSHO under s. Ins 3.52, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the LSHO.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the LSHO in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the LSHO demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The LSHO should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.
5. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

The LSHO is in compliance with these stipulations and has a \$75,000 letter of credit on file with the Commissioner of Insurance.

An LSHO, which provides hospital services, must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.

The LSHO is provided with corporate insurance coverage under the contracts listed below:

Type of Coverage	Policy Limits
Directors' and officers' liability	\$1,000,000
Professional liability	1,000,000

The above coverages are offered through an insurer either licensed in Wisconsin or appearing on the Commissioner's current list of approved surplus lines insurers.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the LSHO as reported in the December 31, 2000, annual statement to the commissioner of insurance. Also included in this section are schedules, which reflect the growth of the LSHO for the period under examination. Any adjustments made as a result of the examination, are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

**Professional Dental Plan, Inc.
Assets Liabilities and Net Worth
As of December 31, 2000**

Assets:

Cash	\$110,150	
Prepaid Insurance	<u>525</u>	
Total Assets		<u>\$110,675</u>

Liabilities:

Accounts payable	<u>\$23,543</u>	
Total Liabilities		<u>23,543</u>

Net Worth:

Contributed capital	170,230	
Retained earnings/fund balance	<u>(83,098)</u>	
Total net worth		<u>87,132</u>
Total Liabilities and Net Worth		<u>\$110,675</u>

**Professional Dental Plan, Inc.
Statement of Revenue and Expenses
For the Year 2000**

Revenues

Premium	\$3,390,240	
Investment	<u>16,067</u>	
Total revenue		<u>\$3,406,307</u>

Provider Expenses

Professional services	<u>\$3,196,419</u>	
Total provider expenses		3,196,419

Administrative Expenses:

Other	<u>209,297</u>	
Total administrative expenses		<u>209,297</u>

Total expenses		<u>3,405,716</u>
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Net Income/(Loss)		<u>\$ 591</u>
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**Professional Dental Plan, Inc.
Statement of Net Worth
As of December 31, 2000**

Net worth, beginning of year	\$86,541
Net income (loss)	<u>591</u>
Net worth, end of year	<u>\$ 87,132</u>

Growth of LSHO

The following schedules reflect the growth of the LSHO during the examination period:

Year	Assets	Liabilities	Net Worth	Premium Earned	Provider Expenses Incurred	Net Income
1996	\$114,766	\$24,239	\$90,527	\$2,619,780	\$2,449,326	\$63
1997	131,114	28,272	92,842	2,794,888	2,619,635	2,315
1998	122,423	28,424	93,999	2,909,972	2,734,889	1,157
1999	112,731	26,190	86,541	2,988,198	2,820,908	(7,458)
2000	110,675	23,543	87,132	3,390,240	3,196,419	591

Enrollment for the years under examination:

Year	Members
1996	38,431
1997	37,243
1998	38,021
1999	35,637
2000	38,592

Reconciliation of Net Worth per Examination

There were not any changes made to the company's December 31, 2000, net worth balance of \$87,132 due to the examination.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the LSHO are as follows:

Financial:

1. Conflict of Interest—It is recommended that the company adopt the procedure for disclosing potential conflicts of interest on an annual basis.

Action—The company has complied with this recommendation.

2. Contracts—It is recommended that the company establish the procedure to ensure that the dental provider maintains and provides to PDP reasonable evidence of a policy of professional liability insurance in the amounts specified in the provider agreement.

Action—The company has complied with this recommendation.

3. Escheatable Items—It is recommended that the company establish a liability for escheatable items as they become due to the state in accordance with ch. 177, Wis. Stat.

Action—The company has complied with this recommendation.

Summary of Current Examination Results

Management and Control

The examiners reviewed the maintenance of the board of directors meeting minutes and the annual meeting minutes. The review consisted of reviewing who maintained the minutes, what information was included in the minutes, attendance, and if the person maintaining the minutes also signed off on them. It was noted that the company's administrator, Tammie Smithback, maintains both the annual meeting minutes and board of directors' meeting minutes, but did not sign off on the meeting minutes in a number of cases. Signing off by the person(s) responsible for maintaining the minutes ensures that the information contained in the minutes is complete and reliable. It is recommended that the company, have the person(s) responsible for maintaining the BOD meeting minutes and annual meeting minutes also sign off on them in accordance with s. 611.51(9) Wis. Stat.

Two of the company's directors' biographical sketches were not filed with the Office of the Commissioner of Insurance. It is recommended that the company file all new directors' biographical sketches with the Office of the Commissioner of Insurance in accordance with s. 611.54 (1)(a) Wis. Stat.

Commitments

PDP is dissolving due to the nonrenewal of a contract with DeanCare. However, since the two parties could not agree and the contract could not be renegotiated, the contract was extended for one more year (2001) without an amendment to the contract itself until dissolution takes place (PDP is expected to dissolve during the second quarter of 2002.). The contract was to expire December 31, 2000. This was also the case for the Service agreement between SVA and PDP, where the agreement had expired December 31, 2000. It is recommended that the company obtain or amend agreements so that it contains language that covers all periods that the company is transacting business with the other entity(ies) in the agreement.

Other Insurance

When reviewing the insurance coverage for PDP, it was noted that the language in the insurance contracts was supposed to contain joint coverage language with American Dental Plan

of Wisconsin, Inc. However PDP's name did not show up on the Deck Pages of both the professional liability coverage and the directors' and officers' liability coverage. It was noted that in previous years the insurance deck pages noted both entities. It is recommended that the company obtain professional liability and/or directors' and officers' liability insurance contracts that contain language assuring the entity as being insured.

VII. CONCLUSION

The examination of Professional Dental Plan, Inc. resulted in four recommendations, no suggestions, no adjustments to equity, and no reclassification. A majority of the recommendations dealt with management and control improvements and contract commitments. The company complied with all prior recommendations. Overall the company has been profitable under the DeanCare Service Agreement.

The company's assets and net worth both decreased by 4% over the period under examination. Earned premiums and incurred medical expenses increased significantly by 29% and 31% respectively. The company has been profitable four out of the last five years. Enrollment slightly increased over the five-year period under review to 38,592 members.

The examination noted that PDP is dissolving due to the nonrenewal of a contract with DeanCare. DeanCare was PDP's only group member service plan. The dissolution will take place during the second quarter of 2002.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Management and Control—It is recommended that the company, have the person(s) responsible for maintaining the BOD meeting minutes and annual meeting minutes also sign off on them in accordance with s. 611.51(9) Wis. Stat.
2. Page 18 - Management and Control—It is recommended that the company file all new directors' biographical sketches with the Office of the Commissioner of Insurance in accordance with s. 611.54(1)(a) Wis. Stat.
3. Page 18 - Commitments—It is recommended that the company obtain or amend agreements so that it contains language that covers all periods that the company is transacting business with the other entity(ies) in the agreement.
4. Page 19 - Other Insurance—It is recommended that the company obtain professional liability and/or directors' and officers' liability insurance contracts that contain language assuring the entity as being insured.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the LSHO are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Bureau of Financial Analysis and Examinations

Name	Title
Sarah Salmon	Insurance Financial Examiner

Respectfully submitted,

John Litweiler
Examiner-in-Charge
Bureau of Financial Analysis and Examinations